



Kroger

annual report 1965





Officers

JACOB E. DAVIS
President

CHARLES E. JOLITZ
Executive Vice President

JOHN M. LOCKHART
Executive Vice President

ROBERT MONTGOMERY
Executive Vice President

LYLE J. EVERINGHAM
Vice President

JAMES P. HERRING
Vice President

A. WAYNE SMITH
Vice President

JOHN L. STRUBBE
Vice President

FRANK S. VAMOS
Vice President

ROBERT O. ADERS
Secretary

RICHARD E. KARKOW
Treasurer

EARL T. BARNES
Assistant Secretary

ARTHUR L. FERGUSON
Assistant Secretary

GEORGE A. LEONARD
Assistant Secretary

CARL W. BRIESKE
Assistant Treasurer

JOSEPH C. LAMB
Assistant Treasurer

PARK O. MOTTER
Assistant Treasurer



Directors

H. U. ANDREAE
President,
The Jeffrey Company

JOHN C. BAKER
President Emeritus,
Ohio University

WILLIAM W. BOESCHENSTEIN
Vice President — Marketing,
Owens-Corning Fiberglas Corporation

BEN H. CARPENTER
Chairman of the Board,
Southland Life Insurance Company

JACOB E. DAVIS
President

JOSEPH B. HALL
Former Chairman of the Kroger Board
Chairman of the Board,
Federal Reserve Bank of Cleveland

G. CARLTON HILL
Chairman of the Board,
The Fifth Third Union Trust Company

CHARLES E. JOLITZ
Executive Vice President

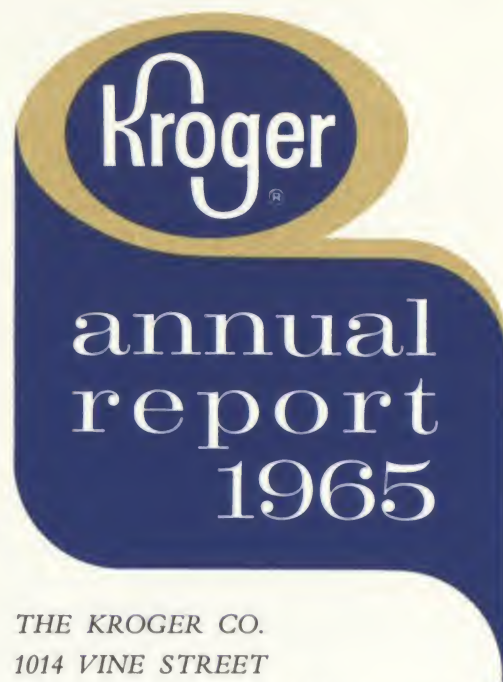
JOHN M. LOCKHART
Executive Vice President

ROBERT MONTGOMERY
Executive Vice President

JAMES M. PHELAN
President,
A. T. Kearney & Company, Inc.

T. SPENCER SHORE
President,
The Eagle-Picher Company

EDWARD D. SMITH
President,
The First National Bank of Atlanta



THE KROGER CO.
1014 VINE STREET
CINCINNATI, OHIO 45201

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Highlights

	1965	1964	Change
SALES	\$2,555,109,466	\$2,327,563,209	+10%
NET INCOME	\$ 31,302,137	\$ 27,923,271	+12%
NET INCOME PER SHARE	\$2.42	\$2.14	+13%
NET WORTH	\$ 244,958,043	\$ 235,238,796	+ 4%
NET WORTH PER SHARE	\$17.72	\$16.81	+ 5%
CAPITAL EXPENDITURES	\$ 44,489,193	\$ 31,761,261	+40%
DEPRECIATION AND AMORTIZATION	\$ 24,204,281	\$ 22,307,645	+ 9%

To Our Shareowners:

Kroger had another record year in 1965. Sales and earnings reached new highs. Dividends again were increased.

Earnings

Net income was \$31,302,137 or \$2.42 per share on the shares outstanding at the year end, an increase of 13% over the \$2.14 per share earned in 1964.

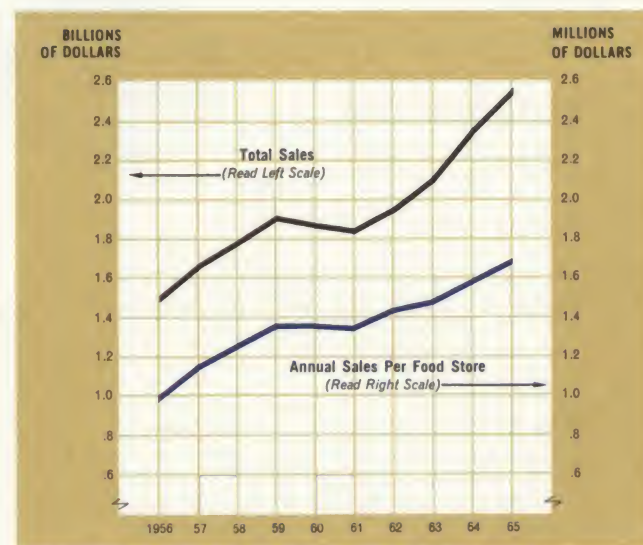
Earnings are after Lifo charges of $2\frac{1}{2}\epsilon$ per share, as compared with $8\frac{1}{2}\epsilon$ per share in 1964. Investment tax credits amounted to \$2,412,000. Early in 1965 the Kroger Employees' Profit Sharing and Retirement Income Program was amended to permit optional retirement for employees between ages 60 and 65 with 15 or more years of service. It has long been our policy to provide sufficiently to meet all obligations to retiring employees. Accordingly, in 1965 we charged current after-tax earnings and increased the Employees' Benefit Fund by \$2,544,334, of which \$1,055,948 was to provide for normal retirements and \$1,488,386 for optional retirements, which were abnormally high as expected in the first year.

Sales

Sales of \$2,555,109,466 (53 weeks) exceeded 1964 (52 weeks) by 10%. For the comparable 52 weeks, the sales gain was 8%. Average annual sales per food store on a 52-week basis were \$1,666,619 in 1965, an increase of \$84,260 over 1964.

Dividend Increase

The quarterly dividend was raised from 30¢ to $32\frac{1}{2}\epsilon$ per share in the fourth quarter of 1965, the 64th consecutive year in which Kroger paid dividends out of



current earnings. The regular quarterly dividend of $32\frac{1}{2}\epsilon$ per share, payable March 1, 1966, has been declared.

Retail Food Divisions

The retail food industry has always been highly competitive. In 1965, competition became more intense as the year progressed. In this climate, your company achieved sales increases in all of its 27 retail divisions, with one exception where operations were affected by a six-week strike. Our merchandising policies and pricing practices reflect our determination that Kroger will continue to be an effective competitor in every market area in which we operate.

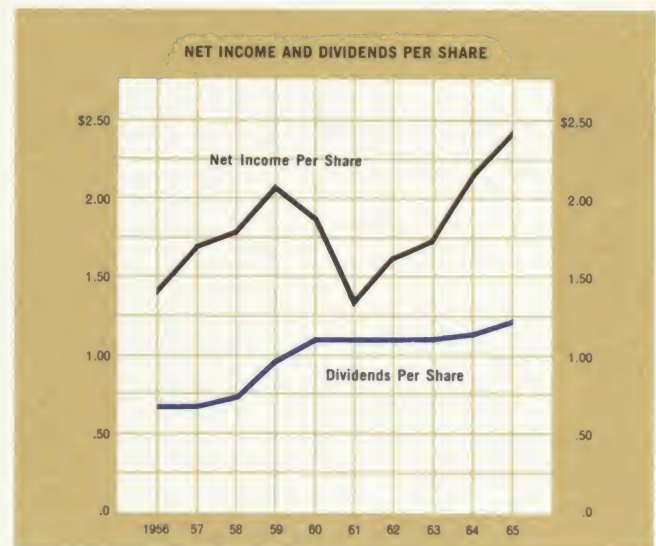
We ended the year with 1,458 food stores after opening 99 new stores and closing 72 old ones. The new stores averaged 14,631 square feet, down 240 square feet from last year's figure and continuing a trend toward smaller stores and more efficient utilization of space. To maintain and improve their profitability, 112 established stores were remodeled during the year.

Drug Stores

As planned, sales and profits of the drug division improved. There were 37 stores opened and 3 closed, bringing to 180 the total number of stores in operation at the end of the year. The number of new store openings will be appreciably greater in 1966 and will include our first California drug stores.

Food Processing

Modernization of manufacturing facilities continued with the completion of the dairy and ice cream plant at Springdale, Ohio. A similar plant in Detroit will begin production in mid-1967. The candy plant at



Springdale, to be completed this year, will include a number of operations entirely new to the candy industry. Several bakeries have been modernized further with the installation of new high-speed bread-making lines.

During 1966 an extensive advertising and promotion campaign will be launched to acquaint customers with the outstanding quality and better value of Kroger brand products. As part of this program, Kroger labels and packages have been redesigned. Examples of leading Kroger products as they will appear on our store shelves this year are shown on the cover of this report.

Financial

Working capital at the year end was \$90,409,624. Cash and Marketable Securities amounted to \$63,856,130. No long-term financing has been required for several years although at occasional brief intervals the company has borrowed from banks to meet temporary cash requirements.

During 1965, Kroger spent \$44,489,193 to improve and enlarge its facilities, of which \$7,214,205 was for store land and buildings, \$20,454,361 for store equipment and improvements, \$3,099,137 for distribution centers, \$5,684,144 for transportation equipment, \$6,291,760 for manufacturing facilities and \$1,745,586 for other items. Depreciation and amortization totaled \$24,204,281. Capital expenditures in 1966 are expected to increase considerably over 1965.

Officers and Directors

Charles E. Jolitz and Robert Montgomery, Vice Presidents and Directors of the company, were elected Executive Vice Presidents in January 1966. Mr. Jolitz

has general responsibility for merchandising and manufacturing while Mr. Montgomery directs the operation of thirteen retail divisions.

Elected Vice Presidents were Lyle J. Everingham, in charge of merchandising, and James P. Herring, who heads drug operations. Robert O. Aders was elected Secretary.

William W. Boeschstein, Vice President-Marketing of Owens-Corning Fiberglas Corporation, was elected a Director in September. W. George Pinnell, Dean of the School of Business, Indiana University, has been recommended by management for election to the Board of Directors at the Annual Meeting in March. Fred. C. Foy resigned as a Director during the year to devote additional time to government assignments. John C. Baker will retire in March. These men gave generously of their time and made important contributions to our progress. We shall miss their participation in company affairs.

Outlook for 1966

All signs point toward a strong economy in the year ahead. Competitive conditions in our industry will continue to be challenging. Your management intends to improve performance in every phase of the business. Kroger should continue to grow and prosper in 1966.

Respectfully submitted,

W. C. Davis

February 11, 1966

President

Consolidated Balance Sheet / Janu



Assets

	Jan. 1, 1966	Dec. 26, 1964
Cash.....	\$ 40,392,438	\$ 54,202,675
Marketable securities, at cost.....	23,463,692	31,865,048
Receivables.....	15,022,336	13,318,766
Inventories (Note 1).....	184,344,146	169,500,867
Store and general supplies.....	8,149,557	7,347,555
Prepaid and miscellaneous assets.....	6,553,321	5,948,249
TOTAL CURRENT ASSETS.....	277,925,490	282,183,160
Investments in unconsolidated companies (Note 2).....	3,550,296	1,587,751
Land, buildings and equipment, at cost or less.....	294,652,178	272,338,949
Less allowance for depreciation.....	(124,312,508)	(118,098,924)
Leaseholds and leasehold improvements, net.....	45,673,041	44,117,107
Excess cost of investment in subsidiaries over net assets acquired.....	13,327,759	13,286,339
TOTAL ASSETS.....	\$510,816,256	\$495,414,382

January 1, 1966 and December 26, 1964

Liabilities

	Jan. 1, 1966	Dec. 26, 1964
Accounts payable.....	\$109,449,766	\$113,329,950
Accrued expenses.....	51,225,215	44,846,084
Provision for federal taxes.....	21,469,885	20,024,247
Long-term indebtedness (Note 3).....	5,371,000	1,711,000
TOTAL CURRENT LIABILITIES.....	187,515,866	179,911,281
Long-term indebtedness (Note 3).....	35,803,000	41,234,292
Deferred federal income taxes.....	30,830,000	29,780,000
Deferred investment credit.....	2,006,000	2,091,000
Employees' benefit fund.....	9,703,347	7,159,013
CAPITAL		
Preferred capital stock:		
First preferred, par \$100.....	24,000	24,000
Cumulative preferred, voting, par \$50 (Notes 4, 5 and 6)		
Authorized: 750,000 shares		
Outstanding: Series A; 1965—462,680 shares;		
1964—472,669 shares.....	23,134,000	23,633,450
Common capital stock, par \$1 (Notes 5 and 6)		
Authorized: 18,000,000 shares		
Issued: 1965—12,868,414 shares;		
1964—12,837,511 shares.....	61,706,506	61,459,363
Accumulated earnings (Note 3).....	172,750,812	157,840,360
	234,457,318	219,299,723
Less, common capital stock held in treasury, at cost:		
1965—353,019 shares; 1964—252,199 shares.....	12,657,275	7,718,377
	221,800,043	211,581,346
TOTAL CAPITAL.....	244,958,043	235,238,796
TOTAL LIABILITIES AND CAPITAL.....	\$510,816,256	\$495,414,382

Consolidated Statement of Income

Years Ended January 1, 1966 and December 26, 1964

	1965	1964
Sales	\$2,555,109,466	\$2,327,563,209
Cost of sales	2,051,494,555	1,866,432,021
Operating, general and administrative expenses	445,466,947	404,626,601
Total	<u>2,496,961,502</u>	<u>2,271,058,622</u>
Operating profit	58,147,964	56,504,587
Interest expense	<u>2,035,827</u>	<u>2,055,316</u>
Income before federal taxes on income	56,112,137	54,449,271
Federal taxes on income	<u>24,810,000</u>	<u>26,526,000</u>
Net income	\$ 31,302,137	\$ 27,923,271

Consolidated Statement of Accumulated Earnings

Years Ended January 1, 1966 and December 26, 1964

Accumulated earnings—Beginning of the year	\$ 157,840,360	\$ 145,145,162
Net income for the year	<u>31,302,137</u>	<u>27,923,271</u>
	189,142,497	173,068,433
Dividends:		
Preferred	1,003,977	1,017,556
Common	<u>15,387,708</u>	<u>14,210,517</u>
	16,391,685	15,228,073
Accumulated earnings—End of the year (Note 3)	\$ 172,750,812	\$ 157,840,360

Notes to Financial Statements

1. Inventories are valued at the lower of cost or market, and in part are on the Lifo basis.
2. All wholly-owned subsidiaries and Market Basket (99.9% owned subsidiary) have been included in consolidation. The company's investment in its unconsolidated subsidiary is stated at cost of \$778,459, and its equity in the net assets at January 1, 1966 and earnings for 1965 were \$5,849,989 and \$1,290,899, respectively. No dividend was received. The investments in and advances to affiliates are stated at cost of \$2,771,837.
3. Long-term indebtedness:

3.1% notes maturing	
October 1, 1971	\$10,500,000
4¾% notes, 70% maturing	
November 5, 1978, 30% maturing	
March 2, 1979	9,150,000
4.8% notes maturing	
October 19, 1981	15,000,000
4.5% notes maturing	
November 13, 1966	3,000,000
5½% notes maturing	
November 1, 1977	1,700,000
Other	1,824,000
	41,174,000
Less, amounts due within one year	5,371,000
	\$35,803,000

Under certain of the loan agreements, payments of cash dividends are limited. At January 1, 1966, accumulated earnings unrestricted, under the agreement carrying the maximum limitation, amounted to \$74,880,869.

4. As of January 1, 1966, 476,351 shares of the authorized Cumulative Preferred Shares are designated Series A. These shares provide for annual dividends of \$2.15 per share; conversion into Common Stock, until September 30, 1973, at one and one-half shares for each share of preferred; and redemption at \$55 per share from October 1, 1966, to September 30, 1968, and \$50 per share thereafter, plus accumulated and unpaid dividends.
5. Options to officers and executives to purchase 335,603 shares of Kroger common stock were in force at December 26, 1964. Option transactions during the year 1965 may be summarized as follows: granted 168,500 shares; exercised 82,714 shares; expired or cancelled 6,154 shares. Options to purchase 415,235 shares were in force at January 1, 1966. Shares available for option at the beginning and close of the year were 35,800 and 170,100, respectively. Options for 137,325 shares were exercisable at January 1, 1966. Options to Market Basket employees to purchase 7,058 Kroger Cumulative Preferred Shares, Series A, were

in force at December 26, 1964. Option transactions during the year 1965 may be summarized as follows: exercised 1,570 shares; expired or cancelled 797 shares. Options to purchase 4,691 shares were in force at January 1, 1966. There were no shares available for option at the beginning or close of the year. Options for 1,615 shares were exercisable at January 1, 1966.

6. At January 1, 1966, 701,057 shares of authorized Common Stock are reserved for conversion of Cumulative Preferred Shares, Series A.
7. The company operates principally in leased premises. Aggregate minimum annual rentals are approximately \$43,050,000 of which \$30,410,000 relates to leases outstanding at January 1, 1966, and expiring subsequent to 1970. Lease terms generally range from 10 to 25 years with options of renewal for additional periods. Options provide in some cases for renewals at reduced rentals and/or the right to purchase.

Report of Certified Public Accountants

LYBRAND, ROSS BROS. & MONTGOMERY
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
The Kroger Co.

We have examined the consolidated balance sheet of The Kroger Co. and subsidiary companies as of January 1, 1966, and the related consolidated statements of income and accumulated earnings for the fiscal year (fifty-three weeks) then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the consolidated financial statements of the company and subsidiary companies for the year 1964.

In our opinion, the accompanying financial statements present fairly the consolidated financial position of The Kroger Co. and subsidiary companies at January 1, 1966 and December 26, 1964, and the consolidated results of their operations for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Cincinnati, Ohio
February 11, 1966

Lybrand, Ross Bros. & Montgomery

Sources and Uses of Funds

	Year Ended	
	Jan. 1, 1966	Dec. 26, 1964
SOURCES OF FUNDS		
From current operations:		
Net income for the year.....	\$ 31,302,137	\$ 27,923,271
Charges to income not requiring funds:		
Depreciation and amortization.....	24,204,281	22,307,645
Provision for employees' benefit fund—net.....	2,544,334	1,273,796
Provision for deferred income taxes.....	1,050,000	6,210,000
Capital stock issued under stock option plans and for acquisitions....	1,689,216	2,975,725
Net book value of capital asset disposals.....	2,481,455	2,350,337
Total Sources.....	\$ 63,271,423	\$ 63,040,774
USES OF FUNDS		
Capital expenditures.....	\$ 44,489,193	\$ 31,761,261
Dividends paid.....	16,391,685	15,228,073
Purchases of treasury stock.....	6,880,421	5,024,542
Reduction in long-term indebtedness.....	5,431,292	1,739,412
Other changes—net.....	1,941,087	964,776
Total Uses.....	\$ 75,133,678	\$ 54,718,064
NET CHANGE IN WORKING CAPITAL.....	\$(11,862,255)	\$ 8,322,710
Working capital, beginning of the year.....	102,271,879	93,949,169
WORKING CAPITAL, END OF THE YEAR.....	\$ 90,409,624	\$102,271,879



COMMON STOCK

TRANSFER AGENTS
The Provident Bank,
Cincinnati
Bankers Trust Company,
New York

REGISTRARS
The Central Trust Company,
Cincinnati
Chemical Bank New York
Trust Company, New York

CUMULATIVE PREFERRED STOCK—SERIES A

TRANSFER AGENT
Bank of America,
Los Angeles

REGISTRAR
Crocker-Citizens National Bank,
Los Angeles

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Cincinnati, Ohio, February 11, 1966

To All Holders of Shares of Common Stock
or Cumulative Preferred Shares, Series A,
of The Kroger Co.

The annual meeting of the shareholders of The Kroger Co. will be held at the office of the Company, 1014 Vine Street, Cincinnati, Ohio, on March 11, 1966, at 10 o'clock A.M., for the following purposes:

1. To elect thirteen (13) directors to serve for the ensuing year and until their successors shall have been elected and qualified;
2. To transact such other business as may properly be brought before the meeting;

all as set forth in the Proxy Statement accompanying this Notice.

Holders of common shares or Cumulative Preferred Shares, Series A, of record at the close of business on January 28, 1966, will be entitled to vote at the meeting.

YOUR MANAGEMENT DESIRES TO HAVE A LARGE NUMBER OF THE SHAREHOLDERS REPRESENTED AT THE MEETING, IN PERSON, OR BY PROXY. IF YOU DO NOT EXPECT TO BE PRESENT IN PERSON, WILL YOU PLEASE SIGN AND DATE THE ENCLOSED PROXY AND MAIL IT AT ONCE IN THE ENCLOSED SELF-ADDRESSED ENVELOPE. HOLDERS OF COMMON STOCK WILL FIND A WHITE PROXY ENCLOSED. HOLDERS OF CUMULATIVE PREFERRED SHARES, SERIES A, WILL FIND A BLUE PROXY ENCLOSED. IF YOU HOLD BOTH COMMON STOCK AND CUMULATIVE PREFERRED SHARES, SERIES A, YOU SHOULD RETURN BOTH THE WHITE AND THE BLUE PROXIES MAILED TO YOU. NO POSTAGE IS REQUIRED IF MAILED WITHIN THE UNITED STATES.

By order of the Board of Directors,
ROBERT O. ADERS, Secretary

PROXY STATEMENT

Cincinnati, Ohio, February 11, 1966

The accompanying proxy is solicited by the management of The Kroger Co., and the cost thereof will be borne by the Company. The Company will reimburse banks, brokers, nominees, and other fiduciaries for postage and reasonable expense incurred by them in forwarding the proxy material to their principals.

Jacob E. Davis, T. Spencer Shore, and Edward D. Smith, all of whom are directors of the Company, have been named members of the Proxy Committee.

As of the close of business on January 28, 1966, the Company's outstanding voting securities consisted of 12,506,507 shares of common stock and 462,701 Cumulative Preferred Shares, Series A, the holders of which will be entitled to one vote per share at the annual meeting. The shares represented by each proxy will be voted unless the proxy is revoked before it is exercised. Revocation may be in writing to the Company or in person at the meeting. The law of Ohio, under which this Company is organized, provides for cumulative voting. If notice in writing is given by any shareholder to the President, a Vice President, or the Secretary of the Company, not less than 48 hours before the time fixed for holding the meeting, that he intends to cumulate his votes for the election of directors and if an announcement of the giving of such notice is made by any such shareholder or the Chairman or Secretary upon the convening of the meeting, each shareholder shall have the right to cumulate his shares at such election.

The Annual Report for the year ended January 1, 1966, is enclosed.

ELECTION OF DIRECTORS

The Board of Directors, as now authorized, consists of thirteen (13) members. It is the intention of the Proxy Committee to vote for the following persons as directors, all of whom have been recommended by the management for election to serve for a term of one year and until their successors have been elected and qualified:

Name	Principal Occupation	First Became a Director	Common Shares Beneficially Owned on January 28, 1966
H. U. Andreae	President, The Jeffrey Company, Manufacturing	1963	200
William W. Boeschstein	Vice President - Marketing, Owens-Corning Fiberglas Corporation, Manufacturing	1965	200
Ben H. Carpenter	Chairman of the Board, Southland Life Insurance Company	1961	2,000
Jacob E. Davis	President, The Kroger Co.	1949	45,494
Joseph B. Hall	Former Chairman of the Board, The Kroger Co.; Chairman of the Board, Federal Reserve Bank of Cleveland	1941	60,656
G. Carlton Hill	Chairman of the Board, The Fifth Third Union Trust Company	1963	300
Charles E. Jolitz	Executive Vice President, The Kroger Co.	1965	3,550
John M. Lockhart	Executive Vice President, The Kroger Co.	1952	42,771
Robert Montgomery	Executive Vice President, The Kroger Co.	1964	9,359
James M. Phelan	President, A. T. Kearney & Company, Inc., Management Consultants	1962	500
W. George Pinnell	Dean, School of Business, Indiana University	—	—
T. Spencer Shore	President, The Eagle-Picher Company, Mining and Manufacturing	1955	651
Edward D. Smith	President, The First National Bank of Atlanta	1955	1,623

None of the nominees beneficially owned any preferred shares of the Company on January 28, 1966.

Mr. Boeschstein and Mr. Pinnell are the only nominees who have not previously been elected directors by the shareholders. Mr. Boeschstein has been employed as a Vice President of Owens-Corning Fiberglas Corporation for more than five years. Mr. Pinnell has been Dean of the School of Business, Indiana University, since 1963, having been Associate Dean from 1956 to 1963.

The following tabulation shows the aggregate remuneration directly or indirectly paid or set aside for the year 1965 by the Company and its subsidiaries to, or for the benefit of, each director whose aggregate remuneration exceeded \$30,000; the three highest paid officers of the Company; and all persons, as a group, who were directors or officers of the Company at any time during 1965:

Name of Individual or Identity of Group	Capacities in which Remuneration Was Received	Salaries	Bonuses	Credits in Employees' Savings and Profit Sharing Plan (See Note)	Pension and Re- tirement Payments
Jacob E. Davis	President	\$160,000	None	\$ 522	None
John M. Lockhart	Executive Vice President	100,000	None	522	None
Charles E. Jolitz	Vice President	80,000	\$ 5,820	522	None
Robert Montgomery	Vice President	65,000	5,820	522	None
Joseph B. Hall	Director and Consultant	45,000	None	None	\$10,000
All directors and officers as a group	Directors and Officers	719,283	31,428	4,117	10,000

NOTE: The above credits are only partially vested; such credits vest at the rate of 5% per year during membership in the Plan. In the event of voluntary withdrawal from the Plan at this time, Messrs. Davis, Lockhart, Jolitz and Montgomery would receive 100%, 70%, 5%, and 45%, respectively, of the \$7,275, \$7,275, \$849, and \$5,243 total Company contributions credited to their respective accounts. All the present officers as a group would receive \$34,767 of the \$50,605 credited to their accounts. (No director who is not also an officer is a member of the Plan.)

The Company's retirement program is not funded; it is on a pay-as-you-go basis. Under the program, rights do not vest in and costs cannot be allocated to any officer or other employee until the time of his retirement. Mr. Hall receives annual benefits of \$10,000 under this program. It is estimated that the above named officers, in the event of retirement at normal retirement age of 65, would each receive annual benefits of \$10,000.

Compensation paid to Mr. Hall during 1965, as shown in the foregoing table, included \$40,000 paid pursuant to an employment contract approved by the shareholders on March 8, 1957. Under this contract, Mr. Hall, who retired as Chairman of the Board effective December 26, 1964, will, upon rendering certain advisory and consulting services and under certain conditions, receive \$40,000 per year. The shareholders, at the same annual meeting, approved a plan authorizing similar contracts with other Company officers. In accordance with this plan, the Company has entered into a contract dated October 31, 1960, with Mr. Davis, then age 55, providing for his employment as a Vice President or in a higher office for a five-year period and thereafter until normal retirement age by mutual consent, under certain specified conditions, at a basic salary of \$100,000 per year; after Mr. Davis ceases to be such an officer he will, upon rendering certain advisory and consulting services, and under certain conditions, receive \$40,000 per year. The basic salary payable to Mr. Davis under this contract was increased to \$160,000 per year effective December 27, 1964.

On April 9, 1965, Mr. Davis and Mr. Jolitz received options for 10,000 shares of the Company's common stock, Mr. Lockhart and Mr. Montgomery received options for 5,000 such shares, and other officers received options for a total of 7,500 shares. Each such option was for five years at a price of \$40.81 per share. On March 12, 1965, an officer of the Company received a five-year option for 3,500 shares at a price of \$41.56 per share. On January 14, 1966, two officers received five-year options for a total of 9,000 shares at a price of \$36.25 per share. The purchase price under each option was the median selling price of the Company's common stock on the date of grant on the New York Stock Exchange. None of the aforesaid options may be exercised until three months after their date, at which time the shares under option that may be purchased are limited to the total number of shares subject to option divided by the number of years constituting the term of the option. The aforesaid options were granted in consideration of the services of the option-holders to the Company.

Purchases of common stock optioned under stock option plans heretofore approved by the shareholders have been made by the following officers and directors of the Company since December 26, 1964. (No director who is not also an officer has been granted an option.)

	Optioned Shares Purchased	Option Price	Market Value At Exercise Date
Mr. Davis	6,948	\$14.95	\$40.06
Mr. Lockhart	6,490	14.95	41.06
Mr. Jolitz	500	22.44	38.44
	500	22.44	39.63
	200	25.50	38.44
	200	25.50	39.63
	200	25.50	41.06
Mr. Montgomery	162	13.03	38.75
	487	14.95	38.13
	468	15.71	38.13
All other officers as a group:			
1965: 1st Quarter	1,207	\$12.64—\$28.56	\$38.44—\$41.25
2nd Quarter	600	15.71	41.13
3rd Quarter	500	15.71	39.38
4th Quarter	3,470	14.95— 15.71	38.13

The management has no reason to believe that any of the nominees for the office of director will, prior to the date of the meeting, refuse or be unable to accept; but if such contingency should arise, it is the intention of the persons named in the proxy to vote for such person or persons for the office of director as the management may recommend.

The management knows of no other matters that are to be presented at the meeting, but, if any should be presented, the Proxy Committee expects to vote thereon according to its best judgment.

By order of the Board of Directors,
ROBERT O. ADERS, Secretary



10 Year Statistical Summary

FOR THE YEAR

	SALES	NET INCOME BEFORE TAXES	NET INCOME	NET INCOME PER SHARE (1)	DIVIDENDS PER SHARE (2)	RETAINED EARNINGS
1965	\$2,555,109,466	\$56,112,137	\$31,302,137	\$2.42	\$1.22½	\$14,910,452
1964	2,327,563,209	54,449,271	27,923,271	2.14	1.12½	12,695,198
1963	2,102,106,248	45,083,898	22,078,898	1.73	1.10	7,910,912
1962	1,947,570,909	44,219,055	20,424,055	1.62	1.10	6,578,540
1961	1,842,342,667	35,035,685	16,952,685	1.34	1.10	3,094,323
1960	1,870,289,637	48,218,029	23,478,029	1.87	1.10	9,732,605
1959	1,911,902,467	54,137,920	25,516,920	2.06	.95	13,751,230
1958	1,776,175,147	44,432,930	21,629,930	1.76	.72½	12,739,263
1957	1,674,123,593	41,505,207	20,635,207	1.70	.66⅔ (3)	12,866,895
1956	1,492,552,233	34,515,450	17,071,250	1.41	.66⅔ (3)	9,641,277

AT THE YEAR END

	CASH	INVENTORIES	NET WORKING CAPITAL	NET FIXED ASSETS	ACCUMULATED EARNINGS	NET WORTH
1965	\$40,392,438	\$184,344,146	\$ 90,409,624	\$216,012,711	\$172,750,812	\$244,958,043
1964	54,202,675	169,500,867	102,271,879	198,357,132	157,840,360	235,238,796
1963	50,679,173	156,420,181	93,949,169	190,954,622	145,145,162	224,592,415
1962	55,925,833	131,832,323	82,085,737	174,684,454	137,234,250	194,303,798
1961	64,004,006	121,395,266	95,694,906	169,967,219	130,655,710	188,884,685
1960	47,354,159	118,783,384	77,681,795	164,214,971	127,561,387	185,077,175
1959	52,865,583	118,862,668	93,854,922	145,970,482	117,828,782	173,461,086
1958	52,566,148	116,628,932	86,679,309	130,504,808	104,077,552	158,573,593
1957	42,927,467	111,474,382	73,136,938	108,866,641	91,338,289	143,730,410
1956	41,518,152	106,274,996	71,945,596	95,528,379	87,656,514	130,159,964

	NET WORTH PER SHARE (1)	NUMBER OF SHAREOWNERS	NUMBER OF EMPLOYEES	NUMBER OF FOOD STORES	ANNUAL SALES PER FOOD STORE	TOTAL FOOD STORE AREA (Sq. Ft.)
1965	\$17.72	40,804	39,997	1,458	\$1,666,619	23,196,320
1964	16.81	41,602	39,785	1,431	1,582,359	22,295,587
1963	15.94	42,904	39,130	1,424	1,476,223	22,026,900
1962	15.39	39,936	37,440	1,364	1,433,091	19,841,911
1961	14.96	36,368	37,308	1,354	1,349,702	18,939,624
1960	14.75	35,663	39,691	1,372	1,357,249	18,264,615
1959	13.97	34,972	40,157	1,393	1,357,885	17,392,580
1958	12.87	28,514	40,500	1,428	1,257,914	16,805,232
1957	11.83	26,583	39,389	1,421	1,157,006	15,092,774
1956	10.77	26,621	36,807	1,476	982,589	13,918,774

(1) Adjusted for 3 for 1 split in 1958 and 4% common stock dividends in 1956 and 1957.

(2) Adjusted for 3 for 1 split in 1958.

(3) Plus 4% stock dividend.

